

# BUSINESS CONDITIONS & FORECASTS

## *A M A News Letter*

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

APRIL 23, 1941

### *The President's Scratch-Pad*



In the daily press, amid the reports of strikes and wage conflicts, we read not one word about the difficulties that management is having in fields other than labor relations. Yet nine out of ten executives that you meet

from companies working on defense orders tell you that they and their associates are "tied to their desks." Two executives in the last few days told me that they have recently been averaging an 80-hour workweek. Others say that they have been keeping shifts of secretaries busy and are trying to engineer their executive jobs along the lines of the work simplification principles that have been followed in factory practice. Indeed, a psychologist reports that he has had an influx of executives requiring treatment for nerves that are frayed and threaten to snap.

Of all this, the general public is thoroughly ignorant. Strike news has served to create the impression that management's principal job so far has been to bicker with unions over wages, hours and working conditions, and that running a company is mostly a matter of dealing with union officials. Obviously the labor phases of defense production have been inflated beyond all reasonable proportions.

Just what management is doing aside from meeting with labor is quite beyond the public's understanding. Few realize that every defense order, no matter how small, has to be priced, to be engineered, to be executed—to be produced, in the most efficient possible way. Machines have to be maintained; new equipment must be purchased; jobs have to be re-organized; factories must be planned and erected; materials must be purchased. There are the stockholders on one side and the government on the other to be answered; operations have to be financed; etc., etc. And each day as billions of dollars that are appropriated for defense are turned into signed contracts this load of detail grows.

In the general clamor over labor diffi-

culties we hear little about the possible management bottleneck. But as a matter of fact, in many places such a bottleneck already exists and it threatens to spread even further. In factories steady mechanization of processes has lightened the load for labor, but no machines have been invented to replace managerial skill.

Our shortage of good managers is as serious as our shortage of skilled factory workers. And in defense industries the machinery for training managers is proceeding under forced draft. There is a revolution in middle management as younger men are being given more important responsibilities and elevated to higher jobs in their firms. Meanwhile, from lower down in the organization others are being brought up to fill the gaps. Companies report that it is not so easy to find men suitably equipped to fill many positions, as it was a few years ago.

Nor is there anything in the war or defense outlook that would lead one to believe that this situation will grow less acute in coming months. In fact, quite the reverse is true. The trend toward our participation in the war has not been interrupted and the longer the war goes on, the greater are our chances of becoming engaged on some front. A nation at war is a nation operating at top speed. Its factories work ceaselessly; its mines disgorge their ore incessantly; men must uncomplainingly work longer hours. Nothing is permitted to stand in the way of the country's security.

All this means further tests of management and labor. For the good of both it is to be hoped that these future intense conditions will not see a recurrence of what has occurred this past Spring and Winter. By now wages have risen on a broad front and a national mediation board has been established. Further, as the Summer goes by we can expect to see more definite efforts on the part of the government to impress upon workers the grim future that lies ahead, both for them and for industry, if their respective responsibilities under the defense program are not adequately discharged.

*Alvin E. Dodd*

## BUSINESS OUTLOOK

### Strikes Bring Temporary Recession

The business activity index which has for many months been steadily moving upward very recently suffered a setback. The reason is strikes—chiefly the coal stoppage, which closed off fuel supplies in some industries, and the Ford shutdown, which brought the output of automobiles below the estimated levels. It is widely believed, however, that industrial activity will quickly return to its previous level, since the labor problem is rapidly becoming less acute.

Steel, bellwether of heavy industry, has granted the 10-cent-an-hour rise in basic wages, and payrolls in general are about 27.3 per cent higher than in the corresponding month last year. Labor, many observers believe, has made and gotten its bid for higher wages and will hold within the new ranges for an extended period. It is extremely noteworthy that while wages have increased on a broad front there has been little rise in the cost of living index in recent months.

### Meeting Inflation Threats

The past month was marked not only by clear evidence of an inflation threat but by definite steps on the part of the government to prevent inflationary trends. There has been steady upward pressure on commodity prices caused by wage increases, priorities, shortages, etc. That is one inflation phase. The government's antidote is stern price control. Another, and much more fundamental and difficult phase is that of rapidly mounting consumer incomes and diminishing manufacture of consumers' goods. Simply, we are turning our factories over to the production of munitions, to the disadvantage of peacetime products. Simultaneously, payrolls are increasing. With more money in their pockets consumers want to buy more goods—necessities, luxuries, and semi-luxuries. The inflation potentials in the situation are obvious. But the government has a remedy for this also—to turn this increased consumer income back to the government through taxes and through a nation-wide campaign to sell government savings bonds.

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	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	The seasonally adjusted index of industrial activity rose during the week ended March 29 to a record high peak; auto production during the first quarter of 1941 reached a new high record of 1,551,029 cars as compared with the previous high of 1,546,319 in the first quarter of 1929 (April 12).	Amid world strife it is noteworthy that business volumes and corporation earnings continue to record extensive gains. The year 1940 achieved pronounced improvement over 1939 levels. The rates for the first quarter of 1941 show further increases over the corresponding period of last year (April 12).	The <i>Business Week</i> Index this week dropped 7 points from its March high of 144.9. Ordinarily such a recession would be a cause of real concern. In this case the drop was due to stoppages in coal production and the slump in Ford assemblies. It should soon move up to the point from which it declined (April 19).
Money and Credit	On the basis of returns for the first two months of this year, per capita income in 1941 will amount to \$605. Although per capita income this year will be 10.4% lower than in the pre-depression year of 1929 this decrease may be more than offset by a lower cost of living level (April 12).	Although we have only begun our defense production, the demand for commercial loans already has been strongly stimulated. Federal Reserve member banks report an increase of well over a billion dollars in loans for business purposes since last September (April 12).	
Security Markets	The recent reaction in stock prices has brought the market close to the lows of early February, but the decline stopped at that point. Failure to dip below the mid-February bottom would suggest termination of the reaction (April 10).	Adverse reports from the war front have made their impact on the stock market just at a time when it was demonstrating a readiness to respond to the underlying expansion of earnings. However, the surprise elements of a year ago are now lacking (April 12).	The increases in wages and the government attitude toward higher priced finished goods are having their effects on such market leaders as steel shares, which have dipped to new lows for 1941. Steel shares have slumped almost 26% since November 9, 1940 (April 19).
Production	Actual steel output this week was scheduled at 99.3% of capacity as against 99.2% last week and the 1941 high of 99.8% two weeks ago. The large volume of orders resulting from British war needs and the army program make any downward revision in steel output unlikely (April 12).	The marked piling up of unfilled orders is general among typical companies. The magnitude of the order backlog gives assurance that operations will be running at a high for some time to come (April 12).	While the industrial slump is temporary should not be written off too lightly; production has been lessened at a time when national defense requires the fullest utilization of all facilities. The shortage of coal may result in the curtailment of operations in steel and other plants after the end of the strike (April 19).
Distribution	As the result of a later Easter this year, department store sales in the United States during the week ended March 29 were 34% lower than a year ago as compared with a decrease of 2% the preceding week. General Motors reports 253,282 autos sold to consumers in March as compared with 174,625 a year ago (April 12).	The freedom with which consumers are spending the rising flow of income is mirrored in the active retail trade; luxuries or semi-luxuries are sharing increasingly in the upswing (April 5).	Retail sales have been rising steadily and real wage increases may give merchandising further spurt. Consumers are taking no chances of higher prices, nor permitting priorities to get in the way of their desires (April 19).
Construction	Building contracts showed slightly less than the usual seasonal decrease from January to February and exceeded the volume of February last year by 55.9%. The building industry promises to provide manufacturing activity with good support for several months ahead (April 5).	Reported gains of 73% in private engineering contract awards and of 259% in public types again illustrates the stimulating effect of the defense program on construction and other capital goods industries (April 12).	FHA insured mortgages are running so high that Congress is being asked to put up more money to cover overhead expenses. Mortgages on new houses are 22% ahead of last Spring's estimates. Mortgages for repair and for small houses on a 5% down payment basis are 50% ahead of estimates (April 12).
Agriculture	Returns on farm income in February were disappointing. The quantity of products marketed was lower than in February a year ago and this practically offset a somewhat higher price level. Therefore, farm income showed only a slight increase over last year which was offset by a drop in benefit payments (April 12).	In past months a decline has been noted in the exports of agricultural products, which partly explains the lag in farm income. Fortunately, government aid is cushioning this blow to the farmer (April 5).	Farm income this year will reach \$10,000,000,000 for the first time since 1929. This substantial gain over 1940's \$9,120,000,000 is attributable to wide demand for farm products and generally higher prices. Under the Lend-Lease Act our exports to Britain are apt to increase (April 12).
Commodity Prices	The index of price average of 28 basic commodities compiled by the Bureau of Labor Statistics rose last week for the ninth consecutive time and now stands at 136.2 as compared to 119.8 at the beginning of February and 112.1 a year ago (April 12).	A rise in commodity prices, which is usually part of a rising tide in business, is now apparently under way. An upward trend in many commodities has been in progress in the past two months. This rising tendency holds definite inflation implications (April 12).	Moody's index of spot commodity prices stood at 186.9 for the latest week as compared to 185 in the preceding week and 163.3 six months ago. The <i>Business Week-Analysis</i> Cyclical Commodity Index stood at 85.09 for the latest week as compared to 78.85 six months ago and 72.08 a year ago (April 19).
Labor and Wages	The upward trend of factory payrolls, which was interrupted by a moderate setback in January, was resumed in February when payrolls rose to the highest total on record. Payrolls in February were 27.3% higher than in the corresponding month last year (April 5).	One of the reasons for rising commodity prices has been the demands of labor for higher pay, a tendency which is spreading. In the past week however, there have been distinctly favorable reports on strike conditions (April 12).	With the 10c an hour boost in the steel industry it seems we have to conclude that for a year or so the extent of labor's gains have been demarcated. In fact, it could be predicted that "for the duration" the largest part of labor's gains have been attained (April 19).
Foreign Trade and Conditions	The value of merchandise exported from the United States in February, as in January, was below the level of a year ago. In February the decrease in exports from last year amounted to 12.4%. The value of merchandise imported into the United States, however, in February was 17.0% larger than a year ago (April 12).		Canada will soon begin to receive war supplies from the U. S. under the Lend-Lease Act. With imports far ahead of exports, Canada is running into serious shortages of United States dollars to meet its obligations. It is certain that Canadians will face increased tax rates next year (April 19).

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

	Dun's Review	Cleveland Trust Company	National City Bank
week dropped of 144.9. Or be a cause of was due to the slump in move up to the (April 19).	<p>The expansion set in motion by the defense effort is now being propelled forward by an accelerated rise in both private and public expenditures. Retail trade in the Easter period reached the best levels since 1929. Industrial production continues to set new all-time records (May).</p> <p>Bank clearings (23 cities) totaled \$27,608,977,000 in March, an increase of 21.7% over February and of 16.6% over last March. The adjusted insolvency index (failures) declined moderately from 62.0 in February to 61.3 in March, which was practically unchanged from the level of 61.4 a year ago (May).</p> <p>Stock prices showed a sagging tendency in early April after relative stability during March. Financing activity for new capital picked up, but total issues by corporations amounted only to \$202,972,000 in March, the smallest total since last September (May).</p> <p>Although some industries are feeling the pinch of shortages in materials and skilled labor, production has continued to increase at a rate slightly better than usual for the season; the FRB adjusted index of output stands at a new high, 25% above a year ago (May).</p> <p>The FRB index of department store sales was unchanged at 103 in March after correction for seasonal variation. Despite a later Easter this year, retail trade recorded broad gains over a year ago in March; in early April the increase widened to more than 15% (May).</p> <p>Building activity continues a rapid increase in residential and industrial fields. Permits issued in 215 cities during March amounted to \$138,235,196, a rise of 47.7% over February and 25.0% over March, 1940 (May).</p> <p>Price changes have been narrowed in April; after rising approximately 5 points or 4% in March, the daily wholesale price index of 30 basic commodities leveled off between 129 and 130 (1930-1932=100) (May).</p> <p>Employment continues to gain and payrolls, helped by increases in both working time and wage rates, are rising even more sharply; in New York State the increase during March was 2.6% for factory employment, 4.7% for payrolls (May).</p> <p>Latest statistics of foreign trade show a further moderate shrinkage in export volume, which is now running under the high levels of a year ago; despite some upturn in imports, however, exports are still substantially larger (May).</p>	<p>April is usually the month when this country has entered its major wars. In April, 1941, we are entering upon a series of most critical tests. We must solve unprecedented problems of finance, production, price control, labor relations and preparedness (April 15).</p> <p>While bank deposits have been widely increasing in recent years, the rate of deposit turnover in these national banks has steadily decreased. A large portion of the deposits is relatively inactive and constitutes a threat of higher prices (April 15).</p> <p>The Cleveland Trust Company's index of the physical volume of industrial production is 108, or 8% above the computed normal level last December. During January, February and March this index has averaged 7% above normal (April 15).</p> <p>The index of the cost of living in this country increased 2% immediately upon the outbreak of the war and then sagged a little for three months. Since December, 1939, it has had a slow advance, bringing it now to 2.5% above the pre-war level (April 15).</p> <p>As yet we have had no real inflation in this country except in bond prices. Warning symptoms are beginning to appear which indicate that precautions against inflation are in order. A great supply of resources is available in the U. S. to make it possible to carry out defense work without costly price advances (April 15).</p> <p>Clearly, we are not solving our problems of labor relations. Industrial strife is holding back our defense efforts. The demand for the best that we have in labor and business has never been greater than in April, 1941 (April 15).</p> <p>Sinkings of British and Allied and neutral shipping in this war so far are running at rates almost three times as high as those in the first year and one-half of the World War. The problem of British shipping losses is our most important business problem (April 15).</p>	<p>The country's production burden daily grows heavier; it is going to become increasingly more difficult to carry on both defense and non-defense production; although defense activity is not yet at its peak, disturbances to normal business are already taking place (April).</p> <p>During the past month response to the Treasury's new 11-13 year taxable 2½% bonds was decidedly favorable; at the same time the announcement of the new savings securities to be offered in a nation-wide campaign gives promise of the government's tapping additional barrels of savings money (April).</p> <p>Almost all lines of business are buying ahead and building up stocks. More industrial materials are locked up in inventory than even in 1937, and probably will remain locked up for the duration of the war (April).</p> <p>Most elements of the population so far have benefited from the defense effort. They are having increases in income exceeding the advances of living costs and are enjoying a greater purchasing power, put into their hands to a considerable extent by government expenditures (April).</p> <p>Defense plant construction is being expanded beyond original intentions, which requires an upward revision of estimates of the future demand for labor and materials (April).</p> <p>Farmers' cash income in 1940 was 5.2% over that received in 1939, although government payments were \$41,000,000 less than in 1939. The expectation is that this year farm income will be one-half a billion larger than in 1940 (April).</p> <p>The rise in commodity prices has been greater than was generally foreseen. The daily index of the Bureau of Labor Statistics has advanced 12½% since January 1. It has exceeded the peak of the speculative boom after the outbreak of the war in 1939. On March 27 it stood 34% above the pre-war level (April).</p> <p>Factory workers are definitely benefiting from the defense program. Since the beginning of the war the average hourly wage rate in 25 manufacturing industries has increased 5.4% and the weekly wage 12.2%. The rise in the cost of living meanwhile has only been 1.9% (April).</p>

## Ideas for Speeding Operations To Be Told By Production Men

### Conference Will Give Whole Day to Experience 'Tips'

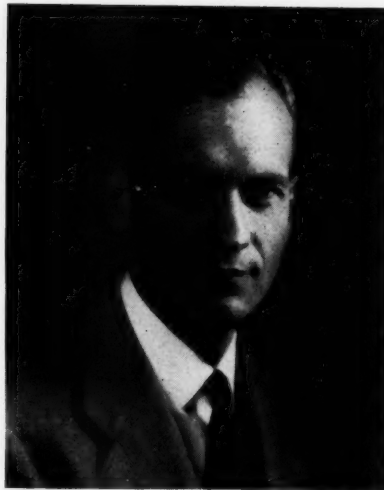
How to step up a plant's production without the purchase of major factory equipment and without large-scale hiring of men will be the problem attacked at the Spring Conference of the AMA Production Division, to be held on Wednesday and Thursday, May 21 and 22 at the Hotel Astor, New York City. Planned especially for production men in defense industries, the meeting is expected to disclose ideas that will be readily applicable in companies throughout the country. Arrangements are under the direction of D. F. Carpenter, Director of Manufacture, Remington Arms Company, Inc., Vice President of the Association's Production Division.

The Association plans to have from 15 to 20 speakers appear at the first day's sessions, who will relate brief, pointed experience stories on how they increased their companies' production under the limitations of shortages of equipment and personnel. Each man will be asked to contribute only one idea so that the sessions will be backed with a variety of suggestions for opening bottlenecks. There will be no long prepared papers. Some points of discussion will be: Quick Training; Better Scheduling of Equipment; Reducing Manpower in Non-Direct Departments, etc.

#### Discussion Sessions

The second day will be given over to four discussion sessions: (1) Subcontracting; (2) Quality Control; (3) Training; and (4) Work Simplification. The sessions will run concurrently in the morning and afternoon. Typical of the kind of presentations to be made is that planned by T. O. Armstrong, of the Westinghouse Electric & Manufacturing Company's East Springfield Works, which will describe the dramatization of quality control and spoilage elimination among employees. Among the chairmen of these concurrent sessions, including Mr. Armstrong, are W. W. Aulepp, of General Foods Corporation; R. C. Oberdahn, Director of Training, Calco Chemical Division, American Cyanamid Company; and Alfred R. Glancy, President, Oakland Motors Corporation and a member of the Office of Production Management.

Cooperation between industry and the Ordnance Department will be the subject of an address at a luncheon on Thursday, May 22. Representing the Ordnance Department will be L. H. Campbell, Jr., Brigadier General, U. S. Army, Assistant



D. F. CARPENTER

Chief of Industrial Service, Facilities, War Department.

This discussion will cover such points as: how manufacturers can work with the Ordnance Department to step up preparedness; current practices in establishing increased defense output; relations of the Ordnance Department and suppliers.

Mr. Carpenter and his committee have moved fast in arranging this meeting so that its discussion will be thoroughly attuned to the present needs of companies. Members are urged to send in their suggestions and comments, and to arrange their working schedules so that they can attend.

### W. L. Batt Receives Gantt Memorial Medal

William L. Batt, Deputy Director, Production Division, Office of Production Management, has been awarded the 1940 Henry Laurence Gantt Memorial Medal for "distinguished and liberal-minded leadership in the art, science, and philosophy of industrial management in both private and public affairs." The medal was presented to Mr. Batt at the Engineers' Club in Philadelphia, on April 22, 1941, by L. P. Alford, Chairman of the Gantt Medal Board, during the dinner held in conjunction with the two-day Management Conference on National Defense, April 22-23, sponsored jointly by the A.S.M.E. Management Division and the A.S.M.E. Philadelphia Section.

The Gantt Medal was established in 1929, through a fund raised by a group of Mr. Gantt's friends, to memorialize the achievements of this great management engineer, industrial leader, and humanitarian.

Mr. Batt is President of SKF Industries, Inc., and Chairman of the Board, American Management Association.

## Insurance Division Meeting on May 5-6

The Insurance Division of the AMA will hold a two-day Conference in New York City on May 5 and 6. These sessions, which annually attract hundreds of insurance buyers and executives with company insurance responsibilities from throughout the United States, will be held at the Hotel Astor.

The Division plans to center intensive discussion on such themes as: The Future of Pension Plans; The Future of Casualty Insurance Rates and Rating Methods; Insurance Management; Insurance Protection for Industrial Plants; and, Participating Policies of Stock Insurance Companies.

Members of the Insurance Division have indicated considerable interest in how fundamental financial conditions are affecting pension plans and present social security practices. The subject will be discussed at the Conference by E. F. Perkins, Associate Actuary, Aetna Life Insurance Company; and J. J. Corson, Director, Bureau of Old-Age and Survivors Insurance, Social Security Board. This topic will be the only one for discussion at the opening session of the Conference.

On Monday afternoon the Conference will be devoted to Casualty Rates. The speakers will be: J. W. Randall, Vice President, The Travelers Insurance Company; and W. F. Lund, Manager, Insurance Division, United States Rubber Company. W. A. Sullivan, Manager, Insurance Department, Loose-Wiles Biscuit Company, will preside.

On Monday evening there will be two off-the-record dinner-smokers, the first of which will be devoted to Insurance Management and the second to Participating Policies of Stock Insurance Companies.

#### Insurance and Defense

Tuesday morning will be devoted to Insurance and the Defense Program. H. V. Smith, President, The Home Insurance Company, will preside over a panel which will discuss Insurance for the Protection of American Industrial Plants. Among those on the panel will be: E. J. Bond, Jr., President, Maryland Casualty Company; H. E. Adams, Assistant Manager, Factory Insurance Association; G. F. Ainslee, Jr., Agency Supervisor, American Surety Company.

The Conference will conclude on Tuesday afternoon with a questions-and-answers session devoted to two principal topics—Use and Occupancy and Automobile Fleet Insurance. J. A. Robinson, Insurance Manager, McKesson & Robbins, Inc., will preside.

